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Dear Sir

### **Enhancing The Value Of Auditor Reporting: Exploring Options For Change**

CPA Australia welcomes the opportunity to comment on the Consultation Paper, Enhancing The Value Of Auditor Reporting: Exploring Options For Change (the Consultation Paper). CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 132,000 members in finance, accounting and business in 111 countries throughout the world. Our vision is to make CPA Australia the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports developments in auditor reporting that serve the evolving needs of users and safeguard effectiveness in the core function of auditing. We recognize the 'information gap' raised in the Consultation Paper, and have sought the views of auditors, other participants in the financial reporting supply chain and users of corporate information in developing our response.

Our consultations have revealed that users perceive real value in the current form of auditor reporting; where the auditor exercises their expertise independently to reach a clear view, and issues a concise report to express their conclusions. This form of reporting exists in most jurisdictions and is applied across entities of most sizes and types. Any attempts to address the information gap must not undermine the value of the current form of audit reporting.

Under the current reporting model, management are responsible for the preparation and presentation of financial and other information, whilst auditors provide assurance over that information to users. This setup is fundamental to the effectiveness of the financial reporting supply chain. Issues that exist in the current corporate reporting model are being explored more appropriately in the standards and practice of financial (and non-financial) reporting. This includes examining increased reporting complexity acknowledged in the paper; and the place of conceptually comprehensive solutions such as integrated reporting. In addressing the information gap, auditors should be expected to develop the capability of providing assurance on evolving reports and disclosures, rather than disclosing information directly themselves.

We have appended to this letter, our responses to the specific questions raised.

If you require further information on any of our views, please contact Amir Ghandar, CPA Australia by email at [amir.ghandar@cpaustralia.com](mailto:amir.ghandar@cpaustralia.com).

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized 'A' followed by a series of loops and a trailing line.

Alex Malley FCPA  
Chief Executive Officer

cc: A Ghandar

**1. Do respondents have any comments about issues identified in Section II regarding the perceptions of auditor reporting today?**

The issues raised in section II, particularly the information gap, are clearly of wide concern to users of corporate reports. Addressing these concerns in a comprehensive way will require action across the entire financial reporting supply chain.

Audit has a clear role to play in resolving the issues raised, and care needs to be taken to preserve the value of audit in its central function of providing assurance to the users of information. We share the concerns raised in the paper that some of the options discussed could cause a blurring of roles and responsibilities between those charged with the preparation of financial statements and the auditors.

**2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which class of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?**

It is critical that a robust and sophisticated financial reporting framework that allows for the preparation of credible financial statements exists, which can then be suitably complemented by the audit function. It is reasonable to conclude that an audit cannot be expected to address deficiencies in the underlying financial reporting framework. We strongly support the interaction between standard setters and others in the spheres of financial reporting and audit to work collectively in narrowing the information gap perceived by users.

**3. Do respondents believe that changes are needed for audits of all types of entities, or only for audit of listed entities?**

As stated previously, users perceive real value in the current form of auditor reporting. For true value enhancement in the audit function, any changes identified as necessary should be at the framework level, applying to all entities subject to the audit process. The benefits and relevance of such changes may however impact differently upon different types of entities. For example, the enhanced model of corporate governance reporting may be relevant to larger entities that have an audit committee.

**4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix I of this Consultation Paper?**

Revisiting the format and structure of the auditor's report is reasonable for completeness of this exercise, however, this cannot address the core issue identified - the information gap.

**5. If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?**

The paragraphs contained within the current standard auditor's report have developed over time with a primary intention of addressing expectations concerning responsibilities of management and auditors. The responsibilities of auditors and management both carry significant legal ramifications and it is essential that there are clear statements on responsibilities included in the auditor's report. It is also important that the language used in the report has the level of precision possible with the use of professional terminology. In addressing the issues raised, we recommend linking to more explanatory and discursive information, with more general use of language in another location.

- 6. Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?**

Currently the auditor considers other information in the annual report and is required to address material inconsistencies with the audited financial statements. Clarifying this in the auditor's report could contribute to a better understanding of the responsibility.

- 7. If yes, what form should the statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?**

In the context of the existing responsibilities of auditors with respect to other information, a statement of auditor's responsibilities is most appropriate. Requiring an explicit statement would change the underlying responsibility. It would be useful to revisit this responsibility and what stakeholder's needs are. It is important that this is first dealt with in the standards concerning the auditor's responsibilities and related consultations (ie the ongoing developments in ISA 720).

- 8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.**

The binary approach of the current standard auditor's report is of value to stakeholders. This allows the user to take assurance that the auditor has applied their expertise and judgement to the audit and reached a level of confidence that allows them to form a clear opinion. Providing additional information about the audit could require the user to form their own opinion about this information and the audit itself. This could have the effect of diminishing the value inherent in the current approach.

The current auditor reporting model does provide scope for emphasis of additional information without qualifying the opinion where the auditor considers this necessary for the user.

- 9. Respondents are asked for their reactions to the example of use of "justification of assessments" in France, as a way to provide additional auditor commentary.**

Refer response to 8 above.

- 10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.**

Disclosures and other information contained within the financial statements are the responsibility of management and the auditor's role is to provide assurance in respect of that information to users. We strongly believe these two roles need to be kept separate and we concur with the paper's acknowledgement of the general recognition that the proposals could seriously prejudice the current position and status of an auditor in relation to the entity they audit.

- 11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.**

We believe the enhanced model of corporate governance reporting presents some real possibilities as a proposition to enhance the value of auditor reporting and merits further thought and research.

However, it is likely to be more beneficial that those charged with governance (or audit committees) report directly on corporate governance matters that are primarily their responsibility, rather than the auditor. This avoids the risks associated with the auditor disclosing matters pertaining to the audited entity in a manner that may undermine their independent role and possibly devalue the function of the audit report. The detail of this proposal, particularly the role of the auditor and content of reporting by those charged with governance, require further development.

**12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?**

As the paper highlights, the corporate governance model of reporting may not be practicable in different jurisdictions due to differences in how the governance and reporting structures are established. Any proposals developed under this option need to be broad enough to cater to such differences.

We concur with the various challenges discussed in Section IV of the paper. In addition, we consider the below challenges should also be taken into account;

- The cooperation of auditors, those charged with governance and audit committees. There may be a reluctance to disclose deficiencies communicated by the auditor, either to avoid a negative message or a concern that it could be misinterpreted and read out of context.
- Suitable framework amendments will be needed both for reporting by the audited entity and by the auditor.
- It is commonly understood that one of the reasons for standard boilerplate wording is to address the legal ramifications of the document concerned. Whilst liability exposures are briefly touched upon in Section IV we recommend a more comprehensive analysis of liability, both legal and otherwise to the various parties concerned, as a result of the proposals.
- We believe there will be additional costs in implementing an enhanced reporting model and the benefits need to be demonstrably greater.

**13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?**

As outlined above, the proposed reporting by those charged with governance has the potential to contribute to resolving the issues raised in the consultation paper, however some elements, including the specific content of such reports require further development. The form and content of such reports would have a bearing on whether it would be appropriate for the auditor to provide any level of assurance on it.

We have some concerns surrounding the "circular" nature of any assurance provided by the auditor under this option, including potential independence issues surrounding self-review threats. To some extent the current audit framework already provides a mechanism for the auditor to address the contents of such a report through the requirement to address any material inconsistencies with the audited financial statements.

**14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.**

We believe the proposals to improve the current financial reporting model will have significant impact on auditor reporting. The current developments, including integrated reporting, are seeking to move towards corporate reporting which addresses many of the types of information discussed in this section.

As models such as integrated reporting evolve, auditor reporting and practice must evolve alongside.

**15. What actions are necessary to influence further development of such assurance or related services?**

We believe the IAASB are well positioned to contribute to development of the role of assurance in these emerging reporting areas. We recommend working closely with the architects behind integrated reporting in achieving a comprehensive solution.

There is benefit in developing new and improving existing additional assurance services envisaged that truly complement the primary audit function.

**16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.**

A comprehensive response to the calls for enhanced disclosures by stakeholders, and the ongoing development of reporting frameworks represents an evolutionary shift in the assurance profession. This would possibly involve changes in cost structures and accountabilities. While it is difficult to contemplate these changes in detail at this stage, it is clear that the profession must evolve along with stakeholder needs and corporate reporting to maintain the relevance and value that it brings to capital markets.

**17. Do respondents believe the benefits, costs, potential challenges and other implications of change are the same for all types of entity? If not, please explain how they may differ.**

There are likely to be differences in the costs, potential challenges and other implications of change particularly between entities with different levels of public accountability. Developments in reporting are increasingly recognising the different needs of stakeholders of different types of entities, and these differences would be expected to also manifest in related assurance provided.

**18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?**

Whilst there is some justification behind all the options explored in Section III, we believe there can be real progress in enhancing the value of audit reporting and practice through carrying out further research into the options explored in Parts D and E. We recommend that the activity undertaken in this area is aligned with the activity of those organisations involved in developing corporate reporting frameworks internationally.

**19. Are there other suggestions for change to auditor reporting to narrow the “information gap” perceived by users or to improve the communicative value of the auditor’s report?**

No further suggestions.